



Business and Income Taxes Division – Compliance and Collections Third Quarter Fiscal Year 2010 Report

Compiled by Jill Hamilton, Management Analyst

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Introduction

The Business and Income Taxes Division (BITD) oversees audits and verifies compliance with Montana tax law for all state taxes, oversees state revenue collection activity, and completes appraisals and assessments of industrial and centrally assessed property. The division also seeks to return unclaimed property (lost money and other properties) to its rightful owners.

<http://revenue.mt.gov/what/BIT/default.mcp.x>.

The purpose of this report is to provide summary information on the main areas of performance measures currently tracked by BITD. The performance measures give a glimpse of the amount of work and accomplishments achieved by the division. To be successful in meeting our mission, all of the division resources must be focused on the common goals of ensuring compliance and timely collections. The outstanding effort demonstrated by the division employees has allowed our division to meet and exceed our goals.

BITD consists of three bureaus; Accounts Receivable and Collections (ARC), Business Tax and Valuation (BTV), and Income and Withholding Taxes (IWT) and one administrative unit.

Throughout the report several common performance measures are used. These common measures are defined as follows:

Audits: Audit activities determine the correct tax liability for individuals and business entities in accordance with the Montana Code Annotated, Title 15 (Taxation). These activities include both the detailed examination of tax returns and supporting documents, and the automated verification of return edits identified during return processing.

Work Items: A work item is a task that is tracked by the department's computer system, GenTax, and must be completed in order for the return or account to be balanced. Work items can be assigned to specific users, or put in a work item queue by the system. Users may search and work them accordingly. Work items can be manually created or automatically generated through GenTax for the majority of all tax types in the system.

Compliance Results

Summary of Compliance Activities Fiscal Year 2010 First, Second, and Third Quarter Ending March 31, 2010

Compliance Activities	First Quarter	Second Quarter	Third Quarter	Total
Individual Income Tax	\$14,458,345	\$ 9,288,471	\$8,954,157	\$32,700,973
Corporation License Tax	\$ 1,704,289	\$ 5,757,044	\$4,899,868	\$12,361,201
Natural Resource Tax	\$14,858,274	\$ 363,452	\$1,387,387	\$16,609,113
Miscellaneous Taxes	\$ 412,411	\$ 309,183	\$2,862,024	\$ 3,583,618
Pass Through Entity Taxes	\$ 58,719	\$ 108,738	\$ 103,679	\$ 271,136
Total Audit Collections	\$31,492,038²	\$15,826,888²	\$18,207,115²	\$65,526,041²
Accounts Receivable and Collections	\$ 5,330,248¹	\$ 6,551,229¹	\$ 7,647,646¹	\$19,529,123¹

Summary of Compliance Activities Fiscal Year 2009 First, Second, and Third Quarter Ending March 31, 2009

Compliance Activities	First Quarter	Second Quarter	Third Quarter	Total
Individual Income Tax	\$10,183,474	\$ 9,042,343	\$ 7,001,735	\$26,227,552
Corporation License Tax	\$ 5,419,410	\$ 8,823,262	\$ 4,318,778	\$18,561,450
Natural Resource Tax	\$ 1,204,895	\$ 2,923,658	\$ 616,633	\$ 4,745,186
Miscellaneous Taxes	\$ 493,413	\$ 509,197	\$ 337,406	\$ 1,340,016
Total Audit Collections	\$17,301,192²	\$21,298,460²	\$12,274,552²	\$50,874,204²
Accounts Receivable and Collections	\$10,144,802¹	\$ 9,453,324¹	\$ 5,398,594¹	\$24,996,720¹

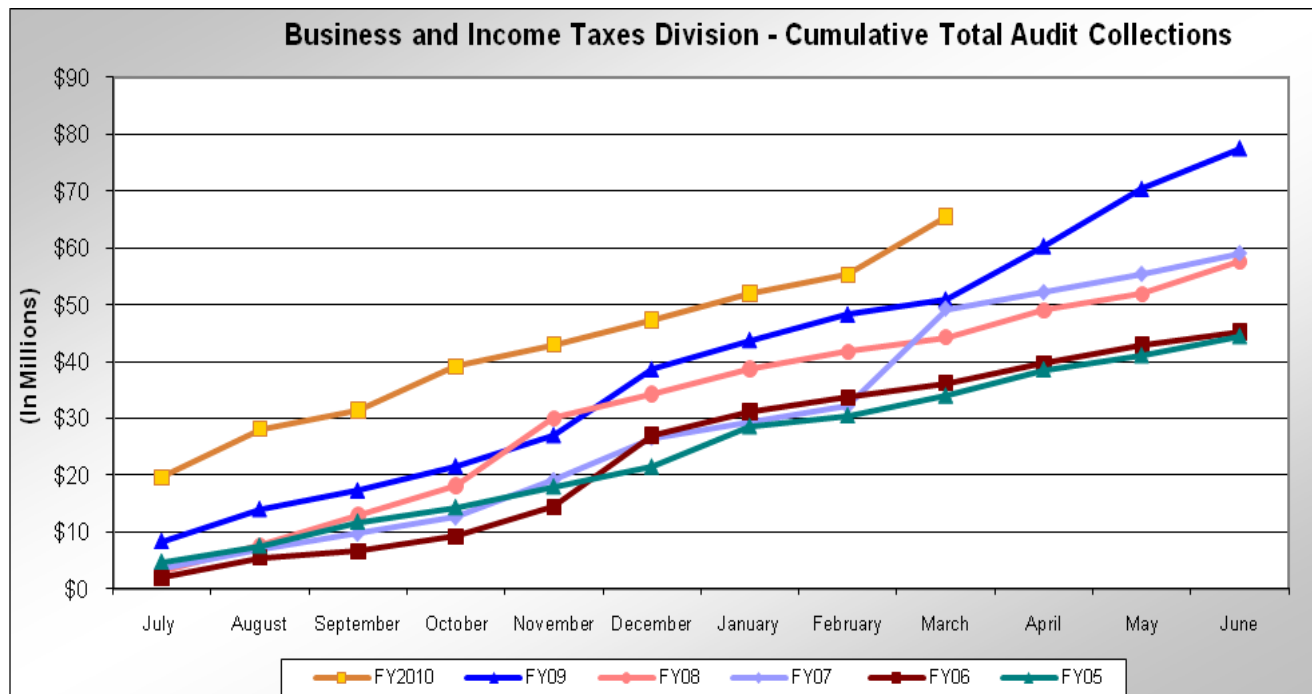
¹A portion of the Accounts Receivable and Collections may also be included in the Audit Collection total.

²The selective compliance initiative and GenTax Discovery collections are included in the Audit Collection total.

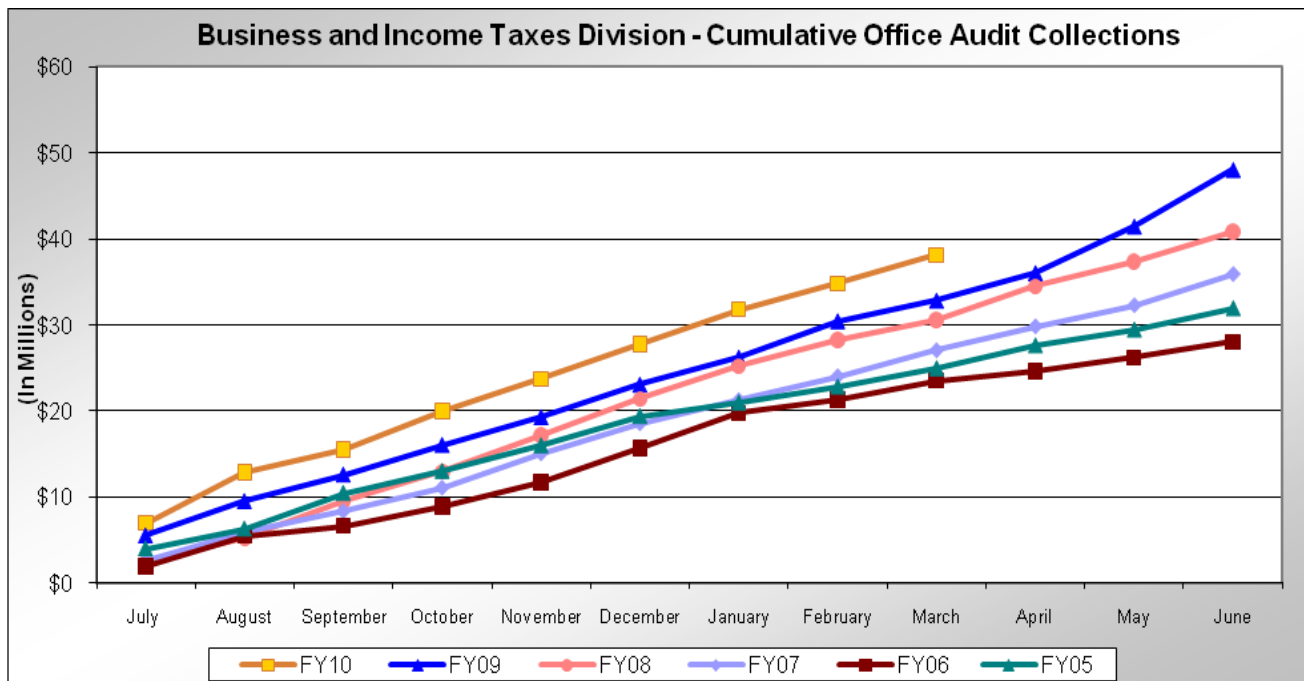
Audit Collection Comparison by Fiscal Year

The following line chart compares the first three quarters of FY10 audit activities with those of the five prior fiscal years. In comparison with the third quarter FY09, the division is \$14.6 million ahead in audit collection activity for FY10.

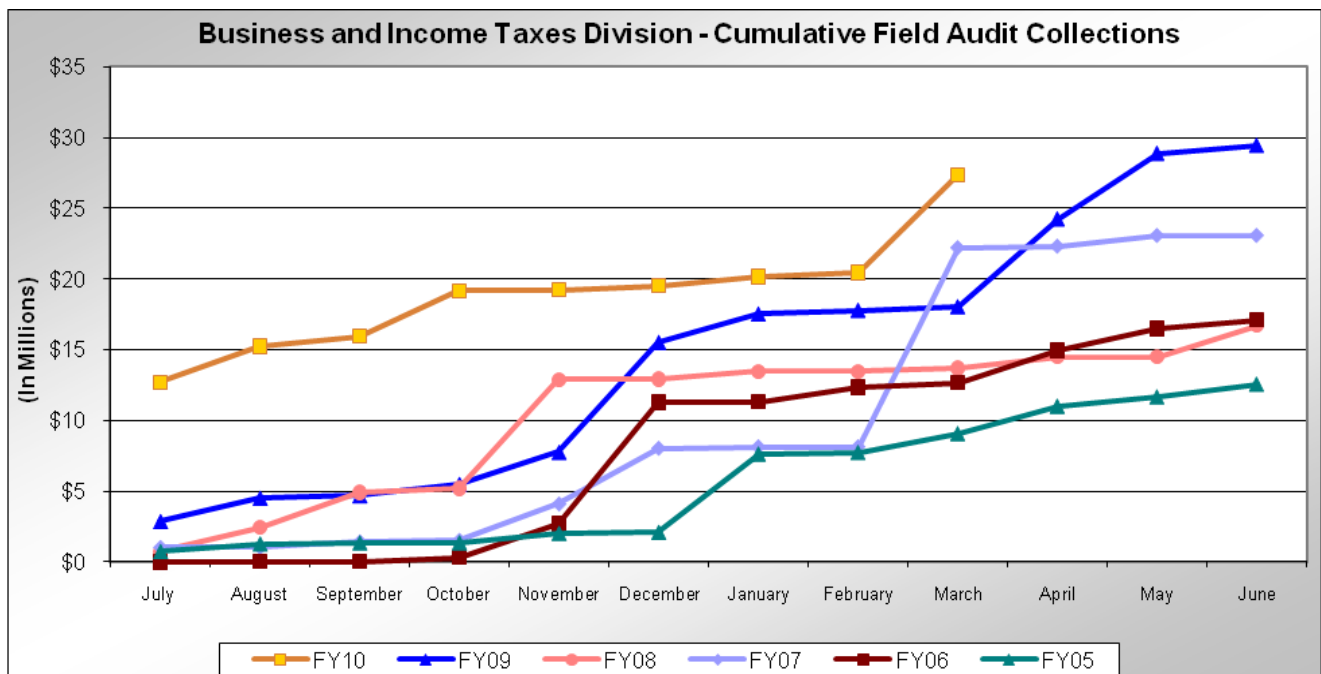
Total Audit Collections: \$65.5 million



Total Office Audit Collections: \$38.2 million



Total Field Audit Collections: \$27.3 million



Selective Compliance Initiatives

Over the past several years the division has been working on a number of *new* or *renewed* selective compliance initiatives. All of these initiatives are important, enhance compliance in specific areas, and lead to the success of the department. This report continues to highlight the division's pass-through audit program.

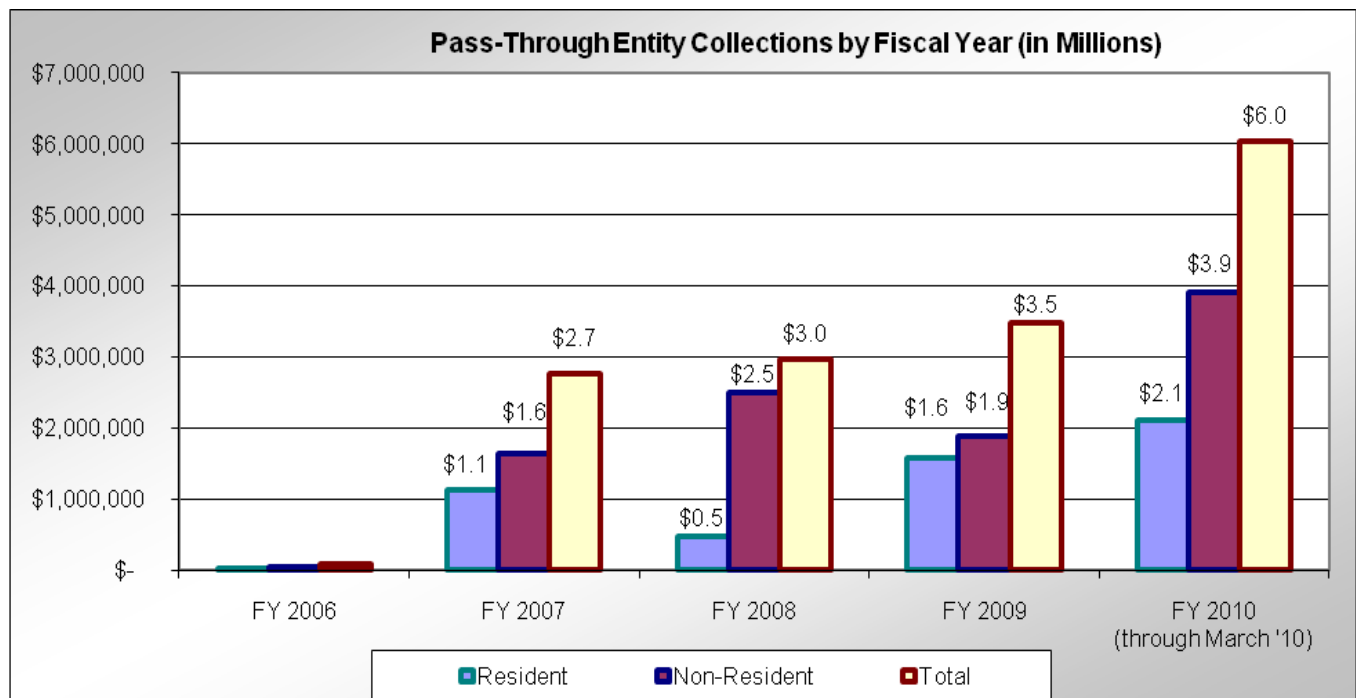
Pass-Through Entities and Collections

Increasingly, in Montana and nationwide, business and investment activities are being conducted by pass-through entities. The most common type of pass-through entity today is the limited liability company or LLC. Other types of pass-through entities are partnerships and S corporations. Income and expenses are reported in the tax returns of the owners. These owners can be corporations, individuals, other pass-through entities, or a mix of all of them. Due to the complex nature of pass-through entities, they often represent a challenge for tax administration.

The pass-through audit program is a combination of office and field audits which have focused on specific issues related to pass-through entities.

The following graph shows resident, non-resident, and total collections by fiscal year.

Total Collections (all fiscal years): \$15.3 million
Residents: \$5.3 million; Non-Residents: \$10 million

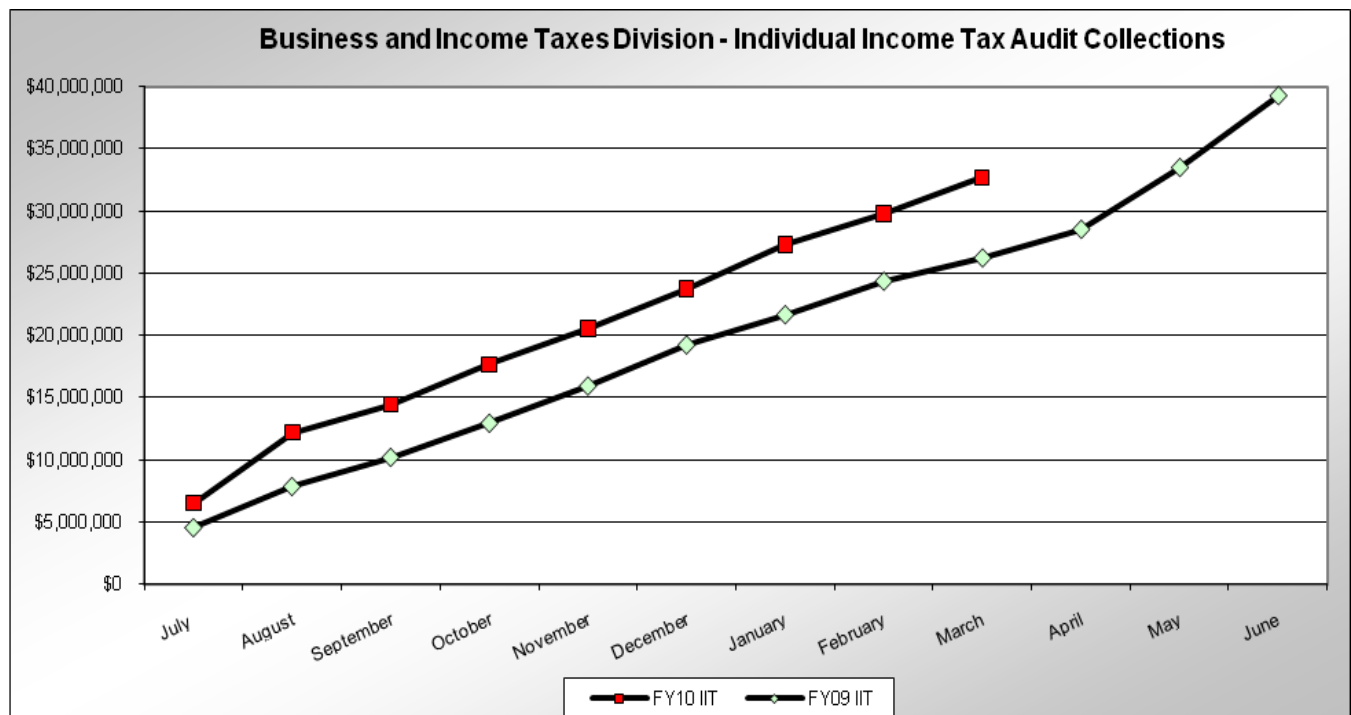


Individual Income and Withholding Taxes

In Montana, the individual income tax has a graduated rate structure with rates ranging from 1% to 6.9% of taxable income. This is a “progressive” tax because taxpayers with higher incomes pay a higher percentage of their income. Not only are residents of Montana required to file, but part-year residents and non-residents with income from Montana sources are required to file an individual income tax return.

Income tax revenues are collected primarily through employer withholding, periodic estimated tax payments, and payments made when the return is filed. In addition, audit collections are included in the overall income tax revenue and are collected through audit and bill payments.

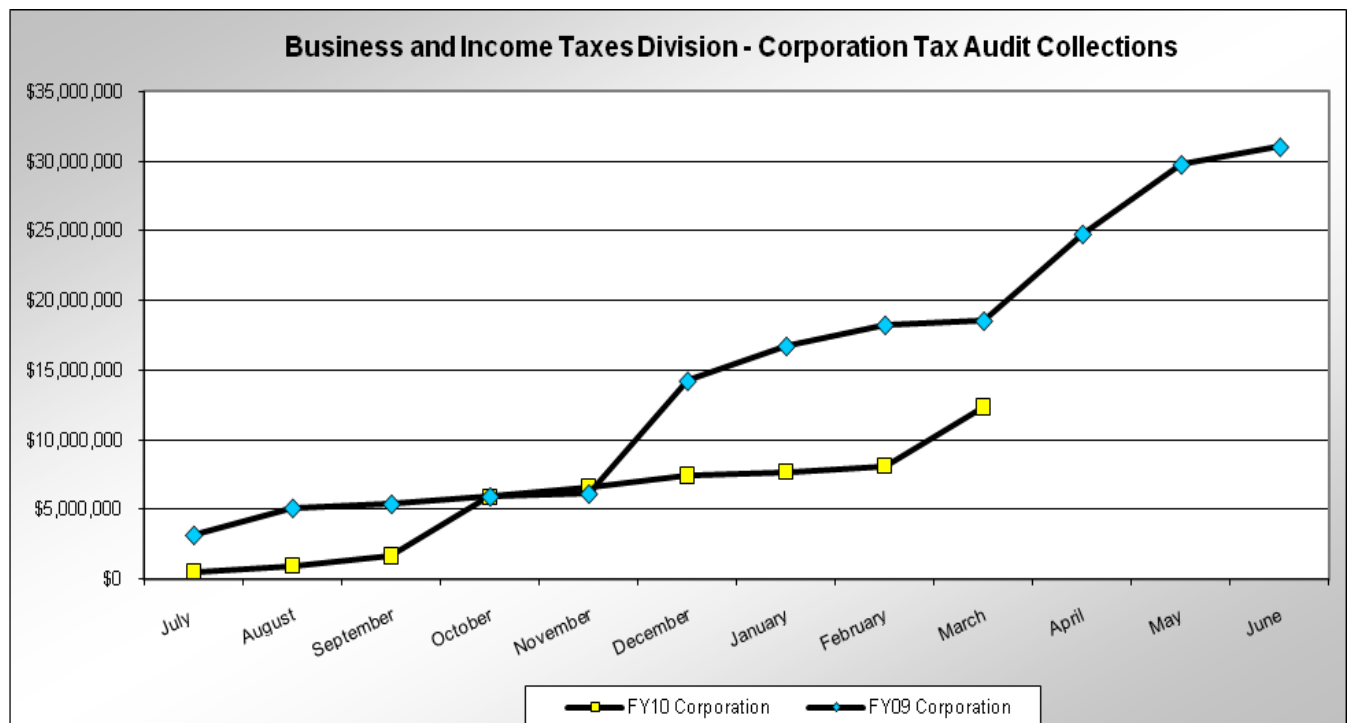
Individual income tax audit collections for the first, second, and third quarter of FY2010 totaled \$32.7 million.



Corporation License Taxes

Montana's corporation license tax is a franchise tax levied on corporations for "the privilege of carrying on business in this state." The tax is levied at the rate of 6.75% on net income earned in Montana. Corporations conducting business that is taxable both within and outside the state (multi-state corporations) are required to allocate income to Montana based on an equally-weighted, three-factor apportionment formula, where sales, property, and payroll are the three factors.

Corporation tax audit collections for the first, second, and third quarter of FY2010 totaled \$12.4 million.



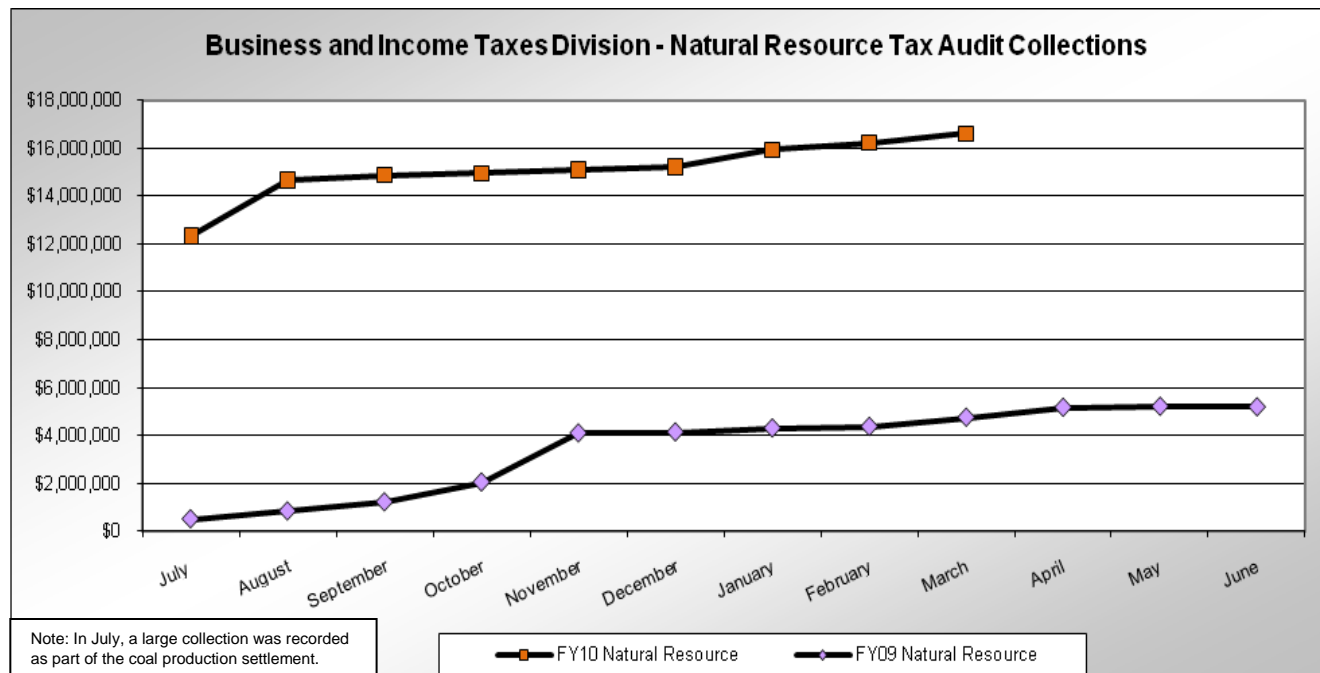
Natural Resource Taxes

Generally, natural resource taxes may be categorized as either severance/license taxes, or some form of ad valorem taxes. Each of the different natural resource taxes in Montana vary by certain characteristics including tax rates, filing requirements, disposition of the tax, and production tax incentives.

Natural resource tax collection is largely made up of the oil and natural gas production tax, however other sources of significant revenue are:

- Coal severance tax
- Coal gross proceeds tax
- Metalliferous mines license tax
- Metal mines gross proceeds tax
- Bentonite production tax
- Miscellaneous mines net proceeds tax
- Resource indemnity and groundwater assessment tax
- Cement and gypsum tax

Natural resource tax audit collections for the first, second, and third quarter of FY2010 totaled \$16.6 million.



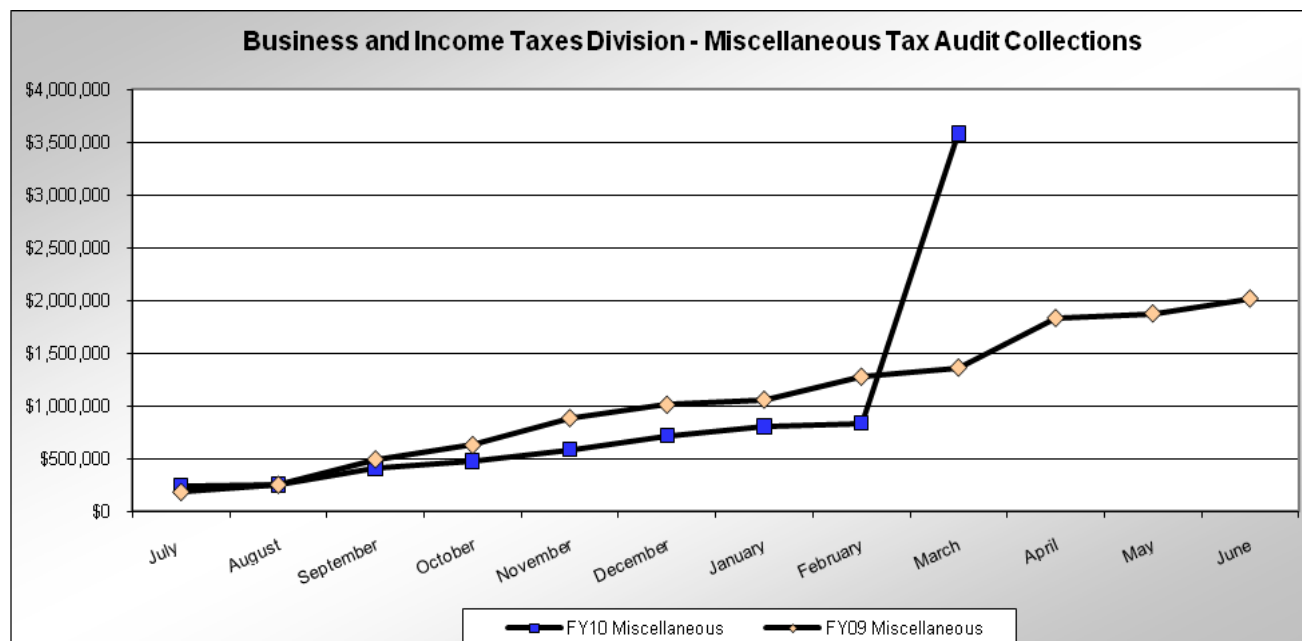
Miscellaneous Taxes

Various miscellaneous taxes are imposed in Montana including excise taxes, wholesale taxes on distributors, cigarette taxes from Internet sales, and special assessments. The business and income taxes division tracks collections on over 15 different miscellaneous taxes.

Several miscellaneous taxes that make up a significant part of the division's audit collections are:

- Retail Telecommunications Excise Tax
- Electrical Energy Tax
- Wholesale Energy Transaction Tax
- Public Service Commission Tax
- Consumer Counsel Tax
- TDD Telecommunications Service Fee
- Statewide 911 Emergency Telephone System Fee
- Lodging Facilities Use Tax
- Rental Vehicle Tax
- Cigarette/Tobacco Products Tax
- Nursing Facilities Bed Tax
- Abandoned Property

Miscellaneous tax audit collections for the first, second, and third quarter of FY2010 totaled \$3.6 million.

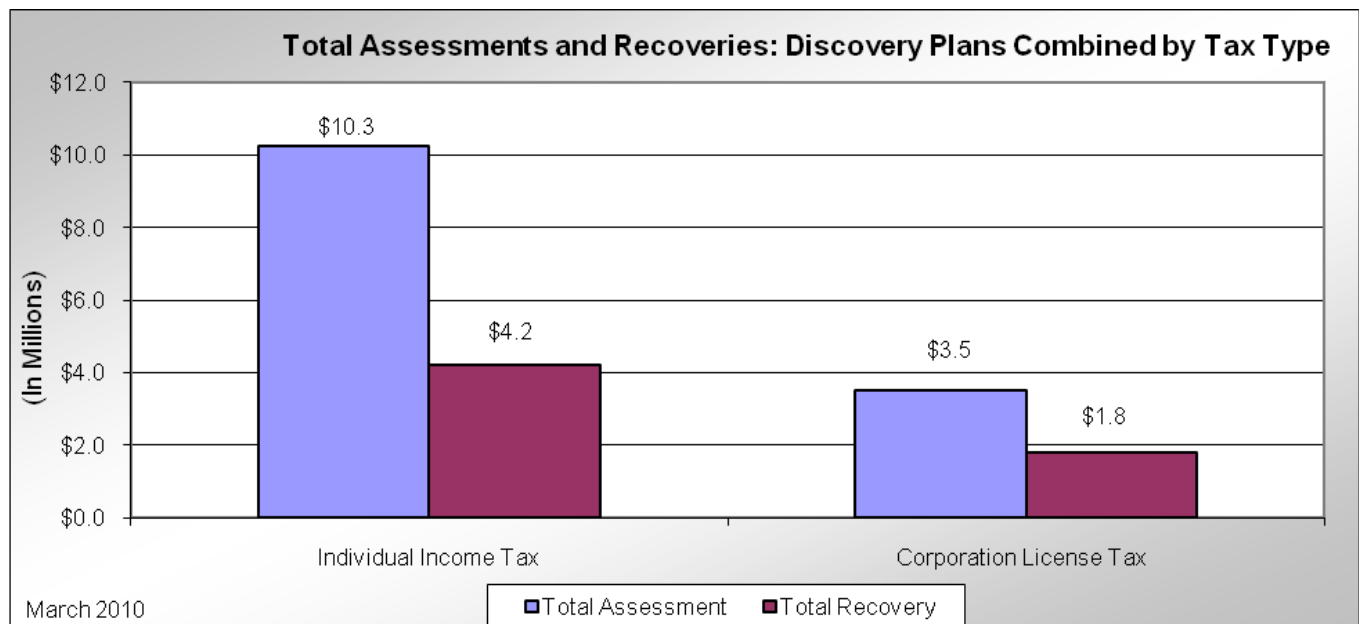


Gentax Discovery

Discovery is a Gentax product that is able to retrieve and cross match pertinent data for the purpose of “discovering” opportunities to improve tax compliance from non-registrants, non-filers, and under-reporters. Discovery uses data imported from external sources such as data files received from the Internal Revenue Service, other state agencies, and internal Gentax data that is all stored in the data warehouse.

Since the development and implementation of Gentax Discovery, managing and working potential audit leads has become an integral part of the Business and Income Taxes Divisions’ daily operations. Through the use of Discovery, the division can better identify, analyze, and investigate multiple data files to effectively pursue more accurate assessments of tax liabilities. In conjunction with Discovery, the data warehouse has also proven to be a fundamental tool in effectively leveraging large volumes of data in one single location.

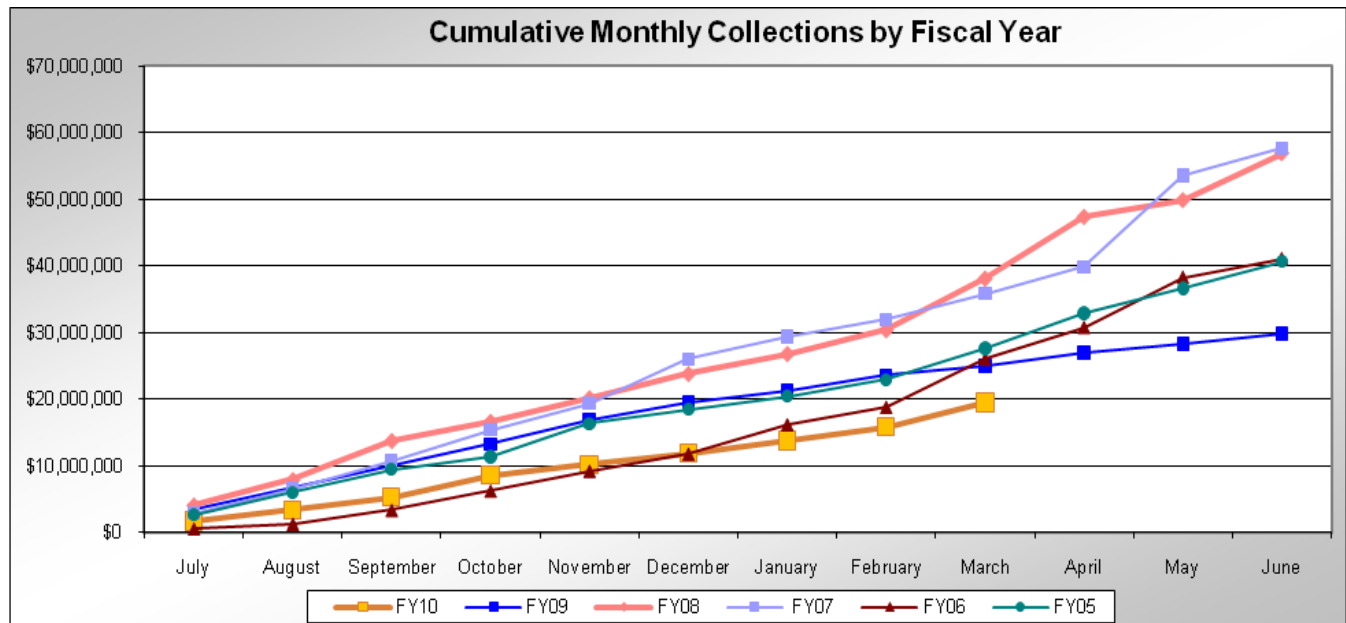
To date, over 50 discoveries are in progress or have been completed and several new discoveries are prepared and ready to begin. Since February 2008, \$13.8 million (IIT and CLT) has been assessed and \$6.0 million has been collected using Gentax Discovery.



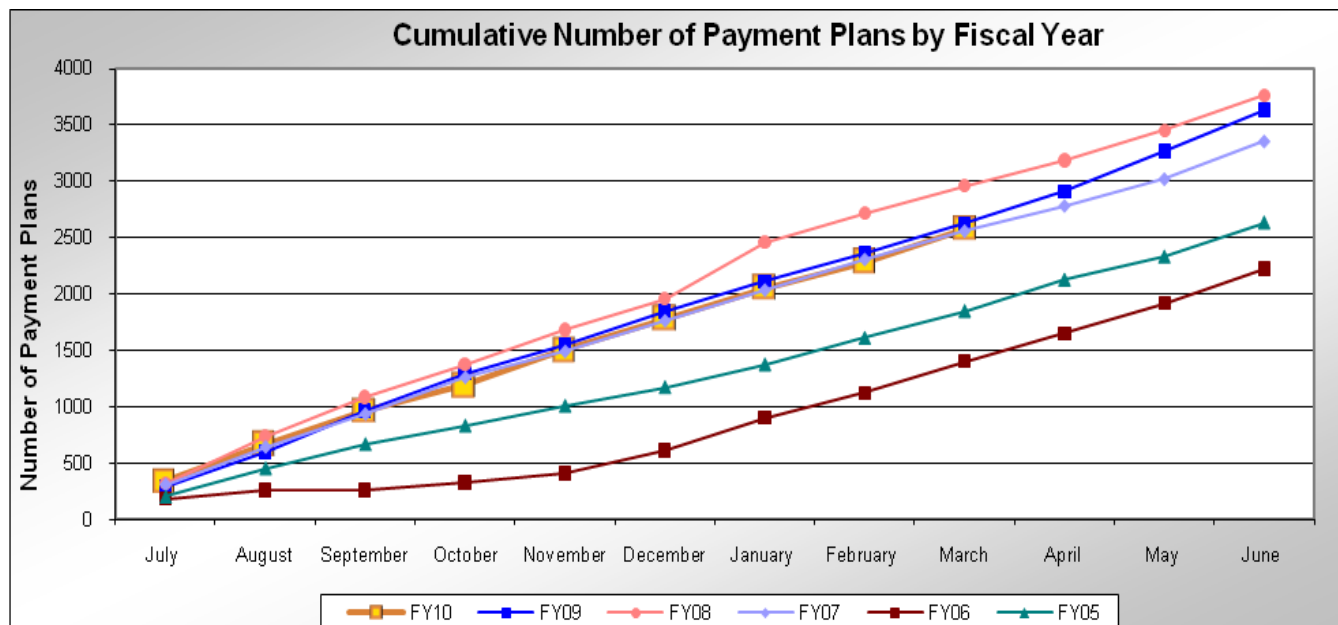
Accounts Receivable and Collections

This bureau is responsible for administering collection activities associated with delinquent account receivables of taxes statutorily administered by the department. The bureau also administers centralized collection activities for other government agencies who contract with the department for collection services to collect outstanding debts owed the agencies.

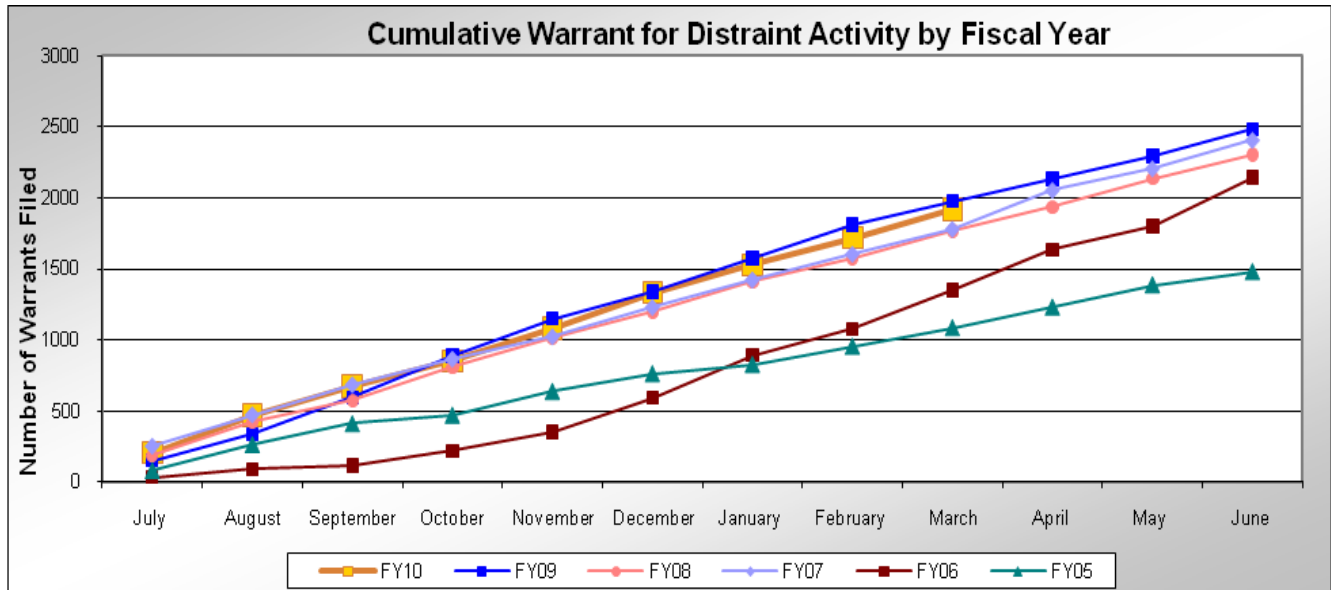
Accounts receivable collections for the first, second, and third quarter of FY2010 totaled \$19.5 million.



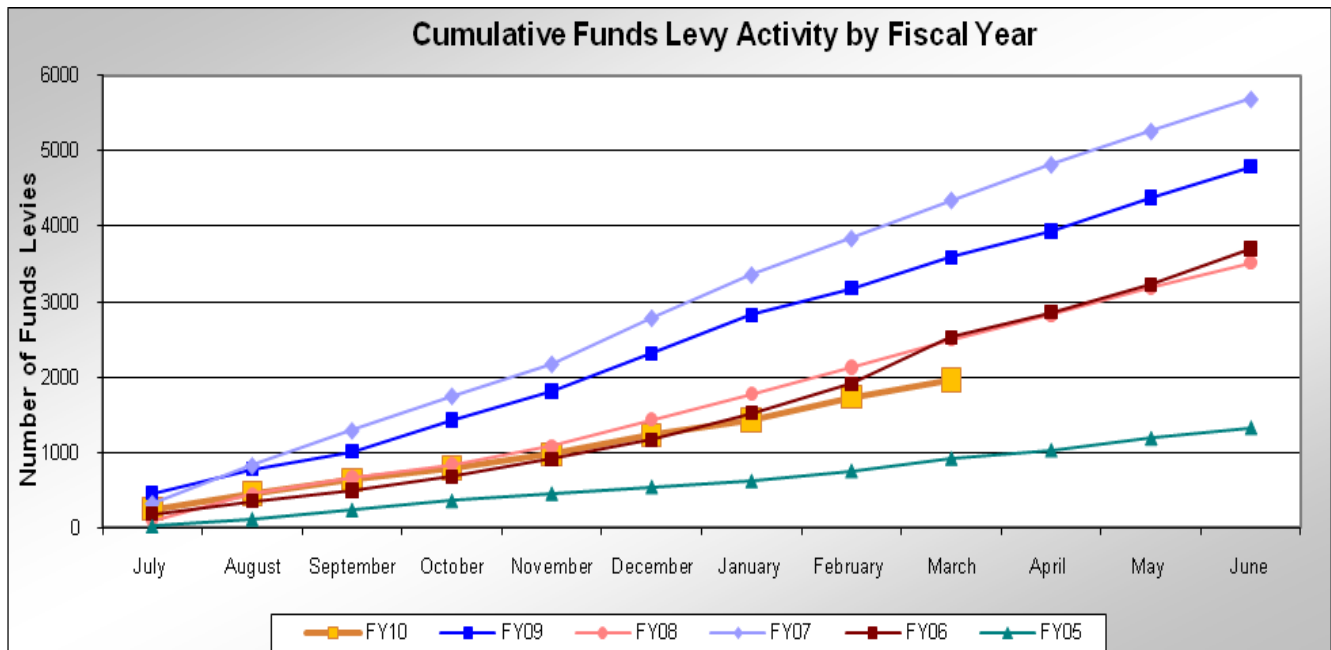
Total Number of Payment Plans established for the first, second, and third quarter of FY2010: 2,577



Total Number of Warrants Filed for the first, second, and third quarter of FY2010: 1,916



Total Number of Levies Initiated for the first, second, and third quarter of FY2010: 1,965



Writ of Execution (Writs)

Beginning December 2008, the Accounts Receivable and Collections bureau began tracking the number of writs that are issued by the clerk of justice or city court. The BITD administrative staff receives the writs and has approximately 12 hours to data enter them into the system. From that point, if a notification of outstanding debt is received the money is offset, held for seven days, and sent to the specific agency documented in the writ. The writs are eligible for offset up to a maximum of 120 days.

	FY10 Total (through April 29, 2010)	FY09 Total	FY08 Total
Writ Offset Collections	\$929,917	\$648,438	\$314,628
Number of Writ Offsets	3,714	2,590	1,176